

## Message Text

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FOR: USDOC/INVESTMENT POLICY DIVISION

E.O. 11652: N/A  
TAGS: EINV, IS  
SUBJECT: PROPOSED CHANGES IN LAWS AND REGULATIONS REGARDING  
INVESTMENT INCENTIVES

REF: 77 TEL AVIV 8508

1. WE HAVE BEEN ADVISED BY THE GOVERNMENT OF ISRAEL INVESTMENT  
AUTHORITY THAT PROPOSED CHANGES OF INVESTMENT INCENTIVES HAVE  
BEEN PREPARED FOR ENACTMENT INTO LAWS, REGULATIONS AND CRITERIAS.  
HOPEFULLY, THESE WILL BE ACTED ON BY ISRAEL'S PARLIAMENT BY  
JUNE 1. IT IS EXPECTED THAT THE LAW WILL BE RETROACTIVE TO APRIL  
1978. THE CHANGES WILL AFFECT (1) AMENDMENT 17, THE LAW  
FOR ENCOURAGEMENT OF CAPITAL INVESTMENT (1959), (2) THE LAW  
FOR ENCOURAGEMENT ON INDUSTRY (TAXES) 1978, AND (3) THE NEW REGULATIO  
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S  
OF THE CONTROLLER GENERAL (CHASHAV CLALI) AFFECTING DEVELOPMENT  
LOANS. PLEASE NOTE THAT THESE CHANGES ARE NOT FINAL AND THAT SOME  
MODIFICATIONS MAY APPEAR IN THE FINAL APPROVED FORMS.

2. LAW FOR ENCOURAGEMENT OF CAPITAL INVESTMENT WILL INCLUDE THE  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TEL AV 06298 161457Z

FOLLOWING CHANGES IN INCENTIVES:  
A. AMOUNT OF CASH GRANT WILL BE 30 PERCENT FOR DEVELOPMENT AREA  
ZONE A AND 15 PERCENT FOR ZONE B.  
B. CASH GRANT OF 5 PERCENT FOR ALL ZONES (INCLUDING ZONE C)  
WILL REPLACE THE FOLLOWING INCENTIVES WHICH WILL BE ELIMINATED:  
(1) THE EXPORT GRANT OF 24 PERCENT OF INVESTMENT IN FIXED  
ASSETS FOR EXPORT INDUSTRIES, (2) THE 10 PERCENT GRANT FOR

ISRAELI MANUFACTURED MACHINERY, (3) THE FIVE-YEAR DEFERRED PAYMENT OF CORPORATE REGISTRATION FEE, CAPITAL FEE, LAND TRANSFER FEE AND STAMP FEE, (4) THE EXEMPTION OF INDIRECT TAXES, SUCH AS CUSTOMS DUTY AND PURCHASE TAX ON IMPORTED MACHINERY, AND (5) THE PARTIAL EXEMPTION OF PROPERTY TAX ON BUILDINGS. HOWEVER, THE EXEMPTION OR REFUND OF VALUE ADDED TAX WILL CONTINUE.

C. THE CORPORATE TAX RATE OF APPROVED ENTERPRISE WILL BE 30 PERCENT (INSTEAD OF THE PREVIOUS 40 PERCENT). IF PROFITS ARE NOT DISTRIBUTED, NO ADDITIONAL TAX IS IMPOSED. ON PROFITS DISTRIBUTED AS DIVIDENDS, THE INCOME TAX WITHHOLDING OF 15 PERCENT ON THE BALANCE OF 70 PERCENT REMAINS THE SAME, BRINGING TOTAL TAXES ON PROFITS OF APPROVED ENTERPRISES TO 40.5 PERCENT (INSTEAD OF PREVIOUS 49 PERCENT). APPROVED ENTERPRISES IN ZONE C MUST EXPORT 25 PERCENT OF TOTAL TURNOVER FOR THE YEAR TO CLAIM THE LOWER TAX RATE.

D. ACCELERATED DEPRECIATION RATES FOR BUILDINGS WILL BE FOUR TIMES THE USUAL RATE, INSTEAD OF TWICE, BUT NOT MORE THAN 20 PERCENT OF THE VALUE OF BUILDING MAY BE CLAIMED IN ONE YEAR.

3. RECOGNIZED ENTERPRISE AND APPROVED PROPERTY ARE ELIMINATED AS SPECIAL STATUSES. HOWEVER, APPROVED SPECIALIST, APPROVED LOAN, APPROVED INVESTMENT, APPROVED RENTAL HOUSING PROPERTY, AND INDUSTRIAL BUILDING FOR RENT (SUBMITTED AS APPROVED ENTERPRISE) WILL CONTINUE TO EXIST.

F. AMENDMENT 15 TO THE LAW (RONNEL) WILL BE CHANGED AS FOLLOWS:

1. COMPANIES LEASING INDUSTRIAL BUILDINGS WILL BE INCLUDED AS ELIGIBLE. (THE CASE FOR HOTELS IS NOT DECIDED).

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TEL AV 06298 161457Z

2. THE REGULATIONS DEFINING CURRENT ASSETS AND LIABILITIES WILL BE CHANGED AS FOLLOWS:

A. NEGATIVE BANK BALANCES WILL BE TAKEN OUT OF CASH BALANCES.

B. DISTRIBUTED PROFITS WILL BE TAKEN OUT ONLY IF THEY EXCEED HALF OF THE YEARLY INCOME AND ARE PAID IN THE FIRST SIX MONTHS OF THE YEAR.

C. THE PERCENTAGE OF MONIES DUE FROM INTERESTED PARTIES WILL BE INCREASED TO 50 INSTEAD OF 25 PERCENT.

3. A NEW SYSTEM OF RECEIVING THE SAME TAX BENEFITS (THE EQUITY SYSTEM) IS HAVING SOME DIFFICULTIES BUT IS IN THE PROCESS OF FORMULATION.

&. ELIGIBILITY CRITERIA FOR APPROVED ENTERPRISE STATUS WILL BE:

1. THE PRODUCT DOES NOT APPEAR IN A NEGATIVE LIST. THIS LIST WILL BE ISSUED SHORTLY.

2. THE EXISTING CRITERIA FOR CAPITAL STRUCTURE WHICH WILL REMAIN IN EFFECT.

3. ADDITIONAL CRITERIA WILL BE ISSUED SHORTLY. (MAINLY AFFECTING ENTERPRISES IN ZONE C)

4. ALL APPLICATIONS SUBMITTED AFTER NOVEMBER 1, 1977, AND APPROVALS AFTER THAT DATE, THAT DID NOT RECEIVE ANY BENEFITS ACCORDING TO THE OLD LAW WILL BE ELIGIBLE TO RECEIVE BENEFITS ACCORDING TO THE NEW LAW.

3. THE LAW OF ENCOURAGEMENT OF INDUSTRY (TAXES) 1978:

A. THE INCOME TAX RATE FOR INDUSTRIAL COMPANIES WILL BE 20 PERCENT IF THE COMPANY WILL REINVEST 30 PERCENT OF ITS PROFITS WITHIN FIVE YEARS. MAXIMUM INCOME TAX ON DISTRIBUTED PROFITS WILL BE 40 PERCENT.

B. FIRMS WILL BE ALLOWED TO REVALUE THEIR INVENTORIES:

1. IN 1978, BY 25 PERCENT OF THE INCREASE IN THE AVERAGE PRICE INDEX FOR THE TAX YEAR (IF THE INDEX WILL INCREASE BY 40 PERCENT THE REVALUATION OF INVENTORY IS 10 PERCENT).
2. IN 1979, BY 50 PERCENT OF THE SAME INCREASE (IN THE ABOVE EXAMPLE 20 PERCENT).

4. REGULATION OF THE CONTROLLER GENERAL

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PAGE 04 TEL AV 06298 161457Z

A. INDUSTRIAL PROJECTS WILL BE ENTITLED TO A SUBSIDIZED DEVELOPMENT LOAN FROM BANKS AT THE RATE OF 40 PERCENT OF INVESTMENT IN ALL ZONES.

B. THE DEFINITION OF INVESTMENT FOR LOAN PURPOSES WILL INCLUDE FIXED ASSETS, THE BASIS FOR THE GRANT, AND THE FOLLOWING: PURCHASED KNOW-HOW (IF BOUGHT AT ARMS LENGTH BASIS AND NOT EXCEEDING 10 TO 15 PERCENT OF TOTAL INVESTMENT), ESTABLISHMENT AND RUNNING IN EXPENSES (NOT EXCEEDING 5 TO 10 PERCENT OF INVESTMENT. THESE PERCENTAGES ARE NOT FIXED AND ARE NEGOTIABLE. IT IS ADVISEABLE TO SPEAK OF THE LOWER RATES AND TO BE CONSERVATIVE IN CALCULATING THE FINANCIAL PLAN.

C. THE LOANS ARE TO BE REPAYED IN EIGHT YEARS WITH TWO YEARS INTEREST PAYMENT (TOTAL LOAN PERIOD TEN YEARS).

D. THE INTEREST RATE FORMULA HAS NOT BEEN DETERMINED, BUT MAY BE THE SAME (20 OR 21 PERCENT) IN ALL ZONES.

5. THE PROPOSED CHANGES HAVE BEEN APPROVED BY GOI ON APRIL 2, 1978 AND ARE EXPECTED TO BE PASSED BY THE KNESSET ON OR BEFORE JULY 1, 1978. THEY WILL BE RETROACTIVE TO APRIL 1, 1978

6. THE INVESTMENT AUTHORITY IS PREPARING BROCHURES WHICH WILL BE POUCHED WHEN RECEIVED.

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